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USSR-ISRAEL: Increased contacts between the USSR and Israel may presage more substantive discussions.

At a recent meeting in Moscow, Arab diplomats concluded that the USSR and Israel will re-establish relations or contacts in four to six months. The Arabs apparently take a serious view of such straws in the wind as the just concluded two-week visit of an Israeli peace delegation to the USSR and Victor Louis' visit to Israel in June. An Israeli Foreign Ministry official remarked last month that he expected a Soviet proposal for an exchange of embassies in the next few months. He added that a short time before the Louis visit the Soviets had proposed the establishment in Israel of a Soviet presence short of full-scale diplomatic relations.

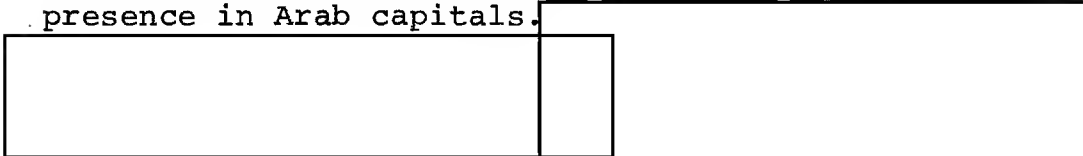
Since last May, when Premier Golda Meir said that it would be helpful if a dialogue were started between the two countries, the Soviets have encouraged speculation about a possible rapprochement. They also permitted an increase in the number of Soviet Jews emigrating to Israel in the first half of 1971 and in Israelis visiting the Soviet Union. A Soviet Foreign Ministry official dismissed the notion of renewing relations as premature, but the recent remarks of Soviet officials at lectures in Moscow appear designed to prepare the Soviet public for such a move.

Whereas the Israelis want re-establishment of formal relations, the Soviets at this time presumably are less interested in full-scale ties and will continue to pursue informal contacts. Resumption of contacts would provide both sides a useful channel to help in avoiding a new outbreak of hostilities in the Middle East, and possibly in regularizing the emigration of Soviet Jews to Israel. Moreover, Moscow could use regular contacts with

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Israel to erode the US monopoly on efforts to arrange a settlement, and to complement its current "peace offensive" in Europe. Moscow, however, must take into consideration Arab reaction to a full-scale Soviet presence in Israel, particularly an Arab decision to invite a significantly greater US presence in Arab capitals.



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PAKISTAN: President Yahya Khan may have decided against proceeding with plans to restore some power to civilians by late October, the date he set last June.

The government has extended the time limit for holding by-elections for vacant national and provincial assembly seats from three weeks to four months. Under this rule, by-elections could be held as late as January. Yahya could call the assemblies into session without by-elections, but he would be unlikely to do so as long as more than half the East Pakistani seats remain vacant.

Yahya probably thought he could not meet his original timetable because of the difficulty of conducting elections in the East. He may also have concluded that more time will help in the continuing effort to organize a progovernment party. Such a party would field acceptable candidates in East Pakistan, and would serve as a counterweight to leftist ex-foreign minister Bhutto in West Pakistan.

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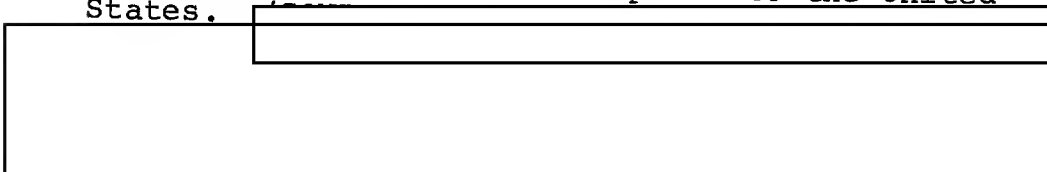
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CANADA: Parliament, concerned with the threat to economic recovery posed by the US surcharge, is debating legislation to offset its depressive impact on Canadian exports.

The modest business recovery that got under way in mid-1970 had been accelerating. In the second quarter of this year, real gross national product registered an increase of more than two percent.

The legislation--the first action of any country to offset the surcharge's impact--would create an Employment Support Board authorized to dispense \$80 million by 31 March 1972 to maintain employment in plants hurt by the surcharge. Finance Minister Benson described the legislation, which should win quick approval, as an important first step to protect Canadian industry. The government, stressing Ottawa's desire to avert a trade war, rejected suggestions that Canada repeg the floating dollar below the US dollar or that a ten-percent export tax be placed on raw material exports to the United States.



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COMMUNIST CHINA - NORTH KOREA: Political motives appear in large part to underlie the Chinese agreement on 6 September to give military aid to Pyongyang. The pact, apparently the first of its kind since the Korean war, was preceded by an economic cooperation protocol signed three weeks ago in Peking. Because both of these developments closely follow public expressions of support from Premier Kim Il-sung for Peking's invitation to President Nixon, they may in part represent Peking's payment for that endorsement. More importantly, the agreements serve as public reaffirmation of continuing Chinese support for Pyongyang in spite of Peking's initiatives toward the US.

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MALTA: Declaring that talks with the UK had reached a "stalemate," the government yesterday ordered a halt to the distribution of "duty free fuel" to foreign military forces on Malta as a "first step" against the British. The announcement, which followed a UK-NATO offer of almost \$24 million in cash and aid, is apparently the first in a "series of actions" that Prime Minister Mintoff has threatened to take if the British do not come up with an acceptable negotiating proposal. British POL storage facilities, located close to but separate from the Royal Air Force base at Luqa Airfield, are supplied by pipeline from Maltese ports. Although Mintoff could easily stop replenishment of the tank farm, he would probably prefer to avoid a complete cutoff of fuel to the British at this time.

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GUYANA: The government is pressing the Reynolds Metals Company to deposit all export receipts in local accounts, with profits to be repatriated later. This would make the export earnings of the company at least temporarily available for loan to Gaybau, the government-owned bauxite operation, even though nationalization of the remaining independent bauxite firm operating in Guyana appears unlikely for the moment. Despite loans from several local banks, Gaybau remains short of cash and is seeking additional working capital to bolster sagging income caused by unexpected production and marketing problems.

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HONDURAS: The government's efforts to revive trade with other Central American Common Market (CACM) members apparently have failed. Private sector opposition has forced Honduras to renounce recently negotiated trade agreements with Nicaragua, Costa Rica, and Guatemala. Business and commercial interests had denounced the agreements on the grounds that they returned Honduras to CACM, but without the trade concessions sought by the Hondurans when they effectively withdrew in December 1970. They acknowledge privately, however, that a renewal of regional trade would erode the virtual monopoly in domestic trade that they have enjoyed for nearly a year.

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